

TIDEWATER UTILITIES, INC.

TESTIMONY OF GERARD L. ESPOSITO

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Gerard L. Esposito. My business address is: Tidewater Utilities, Inc.
located at 1100 South Little Creek Road, Dover, DE.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Tidewater Utilities, Inc. (TUI or Tidewater). I am President and a
Board member of TUI.

Q. PLEASE STATE YOUR EDUCATIONAL AND OCCUPATIONAL BACKGROUND.

A. I have attached my professional qualifications as Exhibit A.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to summarize Tidewater's rate increase application as
well as give an overview of its operations and service area.

Q. CAN YOU SUMMARIZE THE TIDEWATER RATE INCREASE APPLICATION?

A. Included in this application is a Briefing Sheet that provides an overview of the rate
matter. Tidewater is seeking to increase annual revenue by approximately \$3.9 million,
or 14.42% above current annual revenues using rates approved by the Public Service
Commission in Order No. 8164. Those rates were based on capital investment and
operating costs as of March 2012, or over 2 years ago when compared to the time
period used to develop the proposed rates in this rate application. By June 30, 2014,
Tidewater expects to have invested in \$13.7 million of water utility infrastructure since
March 31, 2012.

Q. WHAT STEPS HAVE BEEN TAKEN TO MITIGATE COSTS?

A. Tidewater continually reviews its operations and costs for opportunities to provide water
service at the least cost possible. Since February 2012, Tidewater has reduced its

1 workforce from 105 employees to 92, or 12.4%. In addition, effective January 1, 2013,
2 Tidewater amended its retirement health plan qualifications resulting in a larger retiree
3 contribution to the insurance premiums for the benefits. See Mr. O'Connor's testimony
4 on Minimum Filing Schedule 3B-10 for further details.

5 Q. CAN YOU DESCRIBE THE TUI SYSTEMS THROUGHOUT THE STATE?

6 A. TUI serves approximately 34,000 customers through 50 water systems. Seventeen of
7 these systems are "regional", that is, they interconnect at least two community water
8 systems. The other systems are independent, and are not interconnected with other
9 systems or plants. The systems range in size with the largest providing service to
10 12,600 customers. They are located in New Castle, Kent and Sussex Counties. These
11 facilities are indicated on the system maps in Schedule 6.

12 The Tidewater systems are served by 83 active treatment plants (most of which provide
13 pH control in addition to disinfection; additionally, 6 are pressure filter plants for
14 iron/manganese removal, 15 are ion-exchange plants for iron removal and 4 are ion-
15 exchange plants for nitrate removal, 2 ion exchange plants for TOC removal and 2
16 carbon filter plants for organic chemical removal which are supplied by approximately
17 158 active production wells drilled into the Cheswold, Columbia, Frederica, Magothy, Mt.
18 Laurel, Pocomoke and Potomac aquifers.

19 The Company has 5 "wide-area" service territories located in the areas north and south
20 of Dover in Kent County, to the west of Rehoboth Beach and Lewes, and to the north
21 and south of Indian River Bay in Sussex County.

22 Q. PLEASE DESCRIBE TIDEWATER'S REGIONAL DISTRICTS.

23 A. At the current time, Tidewater manages 17 regional districts. The major regional districts
24 are outlined as follows:

New Castle County:

1. Northwest District – Providing for the needs of an area NNW of Middletown, which is supplied by 3 interconnected treatment plants.
2. East District – Located ENE of Middletown along the Route 13 corridor, which is supplied by 3 interconnected treatment plants.
3. Southeast District – Situated SE of Middletown, East of Route 1, which is supplied by a single treatment plant.

Kent County:

4. Garrison's Lake District – Servicing an area from North Dover to just south of Smyrna, which is supplied by 4 plants and an elevated water tower.
5. Kenton District – Located just east of Kenton, which is supplied by a single treatment plant.
6. West Dover District – Situated in an area NW of Dover, which is supplied by a single treatment plant.
7. Forest Grove District – Providing for the communities located just east of Hartly, which is supplied by 2 treatment plants.
8. Lakeland- Beechwood District – Servicing the communities just south of Dover, which is supplied by 3 treatment plants.
9. Camden District – Servicing the needs of multiple communities in the region located generally between Dover, Camden, and Magnolia, the Camden District is supplied by 5 treatment plants and 2 water towers.

1 10. Wild Quail District – Providing service to the communities located west
2 of Camden-Wyoming, The Wild Quail District is supplied by 2 treatment
3 plants.

4 11. Felton District – Serving an area NE of Felton on the East side of Route
5 13, the Felton District is supplied by 2 treatment facilities.

6 12. Frederica District – Serves an area east of Frederica, the Frederica
7 District is supplied by one facility.

8 **Sussex County:**

9 13. The Meadows District – Providing for the needs of an area east of
10 Millsboro, including Oak Orchard to Long Neck, the Meadows District is
11 supplied by 3 treatment plants and 1 water tower.

12 14. Angola District – Situated in an area SE and NW of Route 24 in the area
13 known as Angola, the Angola District is supplied by 4 treatment facilities.
14 A water tower is soon to be completed in this district also.

15 15. Rehoboth District – Providing for the residential and commercial areas
16 along the Route 1 corridor, extending from north of Five Points, Lewes to
17 the City of Rehoboth, the Rehoboth District is supplied from 9 treatment
18 plants and 1 water tower.

19 16. Bethany Bay District – Providing for the areas of Ocean View, Millville,
20 and north of Bethany, the Bethany Bay District is supplied from 4
21 treatment plants and 2 water towers.

22 17. Bayside District – Situated on Route 54 east of Selbyville, the Bayside
23 District consists of 2 treatment plants and 1 water tower.

1 There are several systems within each of the Districts. Most of these are
2 expected to be regionalized, and therefore interconnected, as development
3 occurs in the franchise areas surrounding the current service areas.

4 Q. WILL YOU DESCRIBE TIDEWATER'S COMMITMENT TO SERVICE IMPROVEMENTS
5 IN DELAWARE?

6 A. The expectation of our customers for appropriate service is the platform upon which
7 every employee activity is based. Tidewater employs a diverse staff of professionals who
8 are dedicated to operate, maintain, repair, upgrade, design, and manage all aspects of
9 providing safe, adequate, and proper service to our customers. Our employees provide
10 service across a wide geographic territory that is a two hour drive end-to-end. The
11 company provides training and educational programs that enable our work force to
12 maintain necessary technology applications and required licenses, registrations and
13 certifications. The physical assets and other infrastructure that facilitates service delivery
14 routinely require upgrade and replacement. Tidewater continues to upgrade and replace
15 such infrastructure, where necessary. Tidewater's current 5-year (2014-2018) capital
16 expenditure plan amounts to approximately \$35.3 million and does not include any
17 significant projects for system expansion outside of its current service territories. As
18 growth occurs, further integration of new and existing systems into regional districts is
19 likely, as further economies of scale can be achieved, thereby resulting in greater cost-
20 effective business processes for the benefit of our customers. The Capital Program and
21 related schedules and testimony sponsored by Mr. Kalmbacher outline expenditures for
22 upgrade and replacement of infrastructure through the construction or rehabilitation of
23 treatment plants, interconnections, residuals treatment and disposal systems, fire
24 protection facilities, stand-by power generation and storage facilities and other items. In
25 addition, the Capital Program includes several interconnections between systems, which

1 provide additional backup and reliability during the peak water use period in the summer
2 months.

3 Q. WHAT ARE THE COMPANY'S SOURCES OF SUPPLY?

4 A. All water supplies for TUI are from groundwater taken from the aquifers south of the
5 Chesapeake & Delaware Canal.

6 Q. WHAT TREATMENT PROCESSES DOES THE COMPANY USE?

7 A. Chlorination is provided at all TUI's plants for disinfection. TOC removal, pH adjustment
8 for corrosion control, activated carbon adsorption, iron removal and nitrate removal are
9 used at some plants where the quality of the water source dictates the need for such
10 treatment. At other locations low levels of iron and manganese are sequestered.

11 Q. CAN YOU EXPLAIN THE RELATIONSHIP BETWEEN TIDEWATER AND ITS
12 AFFILIATES?

13 A. Tidewater is a wholly-owned subsidiary of Middlesex Water Company. Tidewater
14 maintains a wholly-owned subsidiary, White Marsh Environmental Systems, Inc., whose
15 primary business is to offer operations and maintenance contract services to owners of
16 water and wastewater systems. White Marsh also owns commercial office buildings that
17 are leased to Tidewater. Tidewater is the single member of the Southern Shores Water
18 Company, L.L.C., which is a regulated water utility providing service to approximately
19 2,200 customers in the Sea Colony development near Bethany Beach, Delaware. As
20 more fully described in the testimony of A. Bruce O'Connor, there are intercompany
21 services provided in each of these parent-subsidary relationships. Tidewater also
22 provides services on behalf of Tidewater Environmental Services, Inc., the affiliated
23 regulated waste-water utility, which is also wholly-owned by Middlesex. Attached to my
24 testimony is Exhibit B, which charts the entity ownership, described above.

25 Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

26 A. Yes, it does.

GERARD L. ESPOSITO

18 Victoria Drive
The Heath
Milford, DE 19963

EDUCATION

Masters of Science 1979; 3.7 GPA
University of Delaware, Newark, DE

Bachelor of Science 1973; High Honors
Rutgers University, New Brunswick, NJ

EMPLOYMENT HISTORY

April 2002-Present	President, Tidewater Utilities, Inc., Dover, DE and its three affiliated companies
1998-2002	<u>Executive Vice President</u>, Tidewater Utilities, Inc., Odessa, DE <u>President and Board Member</u>, White Marsh Environmental Systems, Inc., Odessa, DE
1989-1998	<u>Director</u>, Division of Water Resources, DE Department of Natural Resources and Environmental Control, Dover, DE
1978-1989	<u>Environmental Planner</u> (2 yrs); <u>Planning Supervisor</u> (4 yrs); Division of Environmental Control <u>Deputy Director</u> (1 yr); Division of Water Resources <u>Deputy Director</u> (4 yrs) [listed chronologically]
1976-1978	Coastal Sussex Water Quality Program, Sussex County Council, Georgetown, DE – <u>Environmental Planner</u>
1973-1976	University of Delaware, Department of Resource Economics, Newark, DE – <u>Graduate Assistant</u>

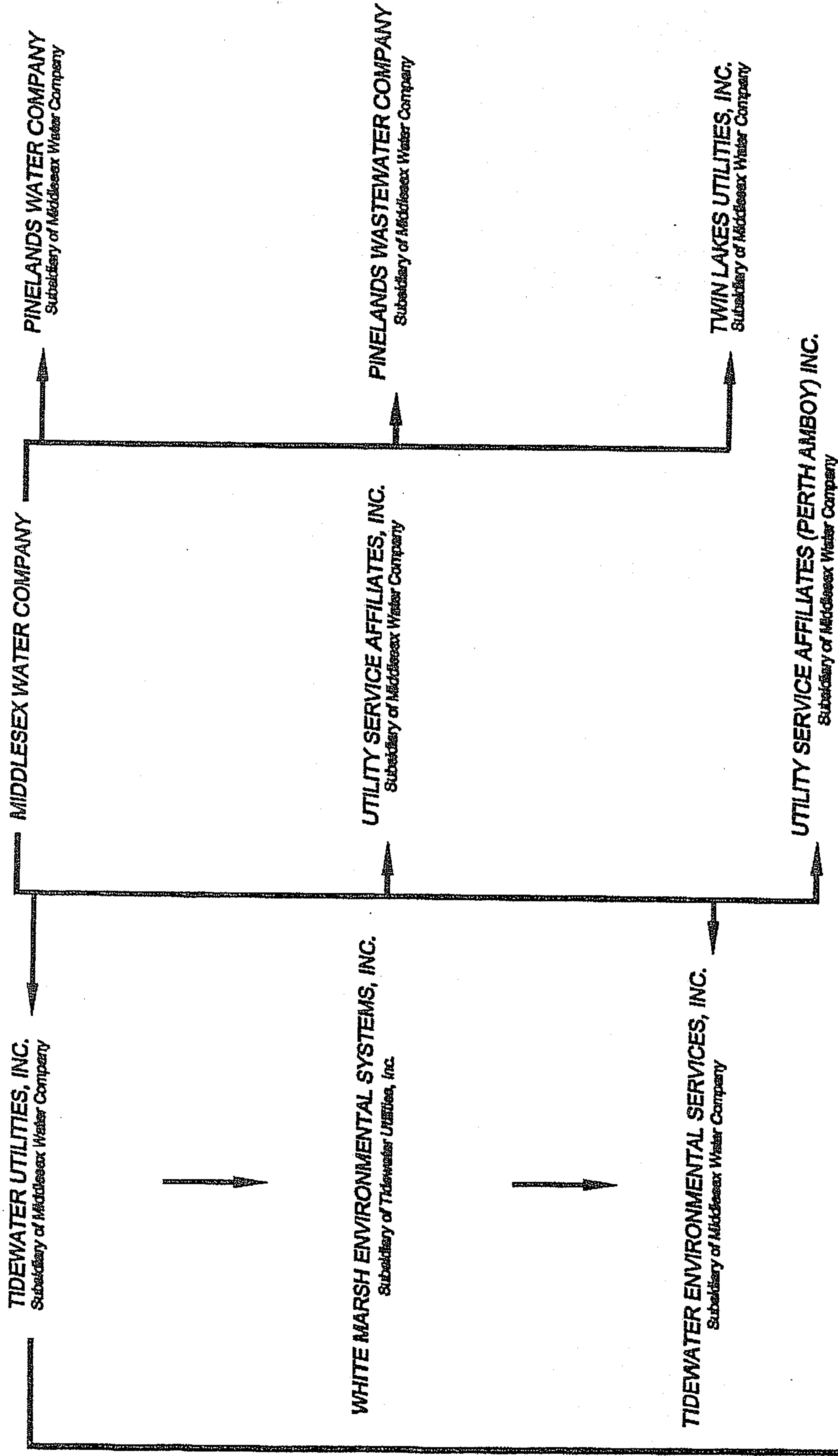
AWARDS AND AFFILIATIONS:

Received: Honorary Commander, Dover Air Force Base (2010), State of Delaware Environmental Lifetime Achievement Award (2008), State of Delaware Distinguished Service Award from Delaware Governor and Lt. Governor, Delaware State Senate Tribute, Delaware House of Representatives Tribute – all for 20 years of dedicated service to the State of Delaware (1998); Friend of the Inland Bays Award (1998); Listed in International Who's Who of Professionals (1997), Who's Who in the East (22nd Edition), and Who's Who Environmental Registry (1992); 1992 Division of Water Resources Employees' Choice Award; 1984 Annual Delaware American Planning Association (A.P.A.) Achievement Award for Inland Bays Task Force Final Report.

Present member of Board of Directors for: Junior Achievement Delaware, Better Business Bureau of Delaware, University of Delaware Sea Grant Advisory Council (Chairman); Delaware Water Supply Task Force, Delaware Sea Level Advisory Committee, Rehoboth/Dewey Beach Chamber of Commerce, Positive Growth Alliance, Meals on Wheels Delaware, Wilmington Diamond State Port Authority, Delaware Solid Waste Authority, Greater Kent Committee, DRBC Watershed Advisory Committee, Delawareans for Economic and Environmental Development, State of Delaware Workforce Investment Board and State of Delaware Board of Certification for Wastewater Operators.

MIDDLESEX WATER COMPANY
ORGANIZATIONAL CHART
 AS OF MAY 24, 2011

PSC Docket No.
 Exhibit B



SOUTHERN SHORES WATER COMPANY LLC

Southern Shores is a limited liability company whose sole member is Tidewater Utilities, Inc.
 Southern Shores primarily provides water service to Sea Colony Development in Sussex County, Delaware.